

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-02-3
---	---------------------

**ORDER GRANTING APPLICATION, DENYING OBJECTION, IN PART,
REQUIRING ADDITIONAL INFORMATION, AND
SCHEDULING CONSUMER COMMENT HEARINGS**

(Issued May 3, 2002)

On April 15, 2002, Interstate Power and Light Company (Interstate Power) filed with the Utilities Board (Board) an "Application for Authority Pursuant to Section 476.6(10)." Interstate Power asks that the Board authorize the filing of a class cost-of-service study, rate design plan, and rate rebalancing proposal in a separate proceeding. Currently, Interstate Power has on file a pending electric rate case, identified as Docket No. RPU-02-3, that applies a uniform percentage across-the-board approach to allocate the proposed revenue increase. However, Interstate Power recognizes in its filing that its current rates reflect a disparity in prices for customers in different geographic zones. These different rates are in place due to various mergers that have occurred.

In its application, Interstate Power states it will file its class cost-of-service study, rate design, and rebalancing application no later than July 31, 2002. Board approval for such a filing, however, is necessary because Iowa Code § 476.10

restricts Interstate Power from filing a new electric rate case within 12 months from the date of filing Docket No. RPU-02-3, or until a final order is issued in that docket, whichever is earlier, without Board approval. Interstate Power states that the Consumer Advocate Division of the Department of Justice (Consumer Advocate) has no objection to granting the requested relief.

On April 18, 2002, the Community Coalition for Rate Fairness (Community Coalition) filed an objection requesting that the Board reject Interstate Power's application for an increase in temporary and permanent electric rates. The Community Coalition contends that Interstate Power's filing for an electric rate increase does not comply with Board rules, because there is no class cost-of-service study to support Interstate Power's rate design proposal, which is to apply a uniform percentage increase across all geographic rate zones.

While the Community Coalition concurs with Interstate Power's proposal to file a class cost-of-service study and rate rebalancing proposal, it objects to this being addressed in a docket separate from Docket No. RPU-02-3. The Community Coalition believes that revenue requirement, class cost-of-service, and rate design issues must be addressed in one proceeding. Under Interstate Power's approach, customers' rates would change at the conclusion of Docket No. RPU-02-3 and change again approximately four months later when the separate rate design and rate rebalancing proceeding is concluded.

In the event Interstate Power's filing in Docket No. RPU-02-3 is not rejected, the Community Coalition asks for alternative relief. The Community Coalition's first

request for alternative relief asks that the ten-month deadline for a rate decision contained in Iowa Code § 476.10 be extended to accommodate Interstate Power's class cost-of-service study and rate rebalancing proposal. The second request for alternative relief asks that the Board order Interstate Power to file a separate class cost-of-service study and rate rebalancing proposal. When that proposal is filed, it would be consolidated with pending Docket No. RPU-02-3, and the ten-month deadline extended by the amount of time that elapses between March 29, 2002, and the date the class cost-of-service study and rate design proposal is docketed.

Interstate Power filed an answer to the Community Coalition on April 25, 2002. Interstate Power argues that 199 IAC 7.4(6)"e"(9) does not require a class cost-of-service study in the initial rate case filing if no changes to rate design are proposed. Interstate Power said its filing contained the required narrative explaining the departure from cost-based rates. Because there is no Board requirement that a class cost-of-service study be filed, Interstate Power said there is no basis for granting the alternative relief requested by the Community Coalition, which involves extending the statutory ten-month deadline.

The Community Coalition filed a reply on May 1, 2002. The Community Coalition cites 199 IAC 20.10(2), which provides, in part, that "[r]ates charged by an electric utility for providing electric service to each class of electric consumers shall be designed, to the maximum extent practicable, to reasonably reflect the costs of providing electric service to the class." The Community Coalition claims there is no

justification for the departure from cost-based rates and that Interstate Power has provided none in its filing.

Rate disparities that exist between geographic rate zones not for cost reasons but because of previous mergers or acquisitions present difficult questions.

Interstate Power's service territory in Iowa consists of service territory that formerly was served by four different utilities: IES Utilities Inc., Interstate Power Company, Iowa Southern Utilities Company, and Union Electric Company. Each of those utilities had different costs and rate structures and each rate structure was essentially "grandfathered" following the mergers. A rate freeze that was part of the merger of Interstate Power Company, IES Utilities Inc., and Wisconsin Power and Light took effect in 1998 and expired this year, continuing the disparate rates and rate structure to the present. While rates and rate structure have remained different, the costs associated with providing service are no longer differentiated based on the geographic areas of the former utilities. For example, electricity produced by the Duane Arnold Energy Center now is used to serve all Interstate Power customers, although the non-energy costs associated with the plant are charged only to former IES Utilities Inc. customers.

The ultimate goal is for all similarly-situated customers of Interstate Power to pay the same rate for the same service, with any differentiations based on such things as customer class, not geography. While rate equalization between the zones is the ultimate goal, issues such as rate shock must also be considered when consolidating zonal rates. This is particularly true where, as here, some of the

disparities are significant. Depending on the size of the zonal disparity, the Board has the discretion to phase in rate consolidation rather than to immediately equalize rates in the various pricing zones. The interests of those customers subject to rate shock, however, will have to be balanced with the interests of customers located in the zones that have higher than systemwide average rates.

Average per kilowatt hour rate differences between zones could be considered without a class cost-of-service study. This type of revenue equalization is largely a mathematical exercise that could be used to produce more uniform standard average rates across the various geographic zones. A class cost-of-service study, on the other hand, is used as a guide in setting specific rates between the various classes of service, such as residential, commercial, and industrial.

Subparagraph 199 IAC 7.4(6)"e"(9) provides:

Schedules showing that the rates proposed will produce the revenues requested. In addition to these schedules, the utility shall submit in support of the design of the proposed rate a narrative statement describing and justifying the objectives of the proffered rate. If the purpose of the rate design is to reflect costs, the narrative should state how that objective is achieved, and should be accompanied by a cost analysis that would justify the rate design. If the rate design is not intended to reflect costs, a statement should be furnished justifying the departure from cost-based rates. This filing shall be in compliance with all other rules of the board concerning rate design and cost studies.

The rule does not specifically require a class cost-of-service study. In the October 16, 1991, docketing order in Docket No. RPU-91-7, an electric rate case involving a predecessor to Interstate Power, the Board said that the rule "does not

require a class cost-of-service study in the initial rate case filing. The rule only requires the utility to support its proposed rate design. When there are no proposed changes to rate design, a class cost-of-service study is not part of the filing requirements." A narrative explaining the departure from cost-based rates is included in witness Berentsen's direct testimony, exhibits, and workpapers.

The reference in the order to "no proposed changes in rate design" generally refers to changes in rate structure and in the cost allocations between the various customer classes. Subrule 199 IAC 20.10(2), cited by the Community Coalition, similarly applies to changes in rate structure and in the cost allocations between the various customer classes. Also, the phrase "to the maximum extent practicable" contained in the rule indicates that there are factors other than costs considered in setting rates, such as rate shock. The order and the rule do not mean, however, that there cannot be movement towards narrowing per kilowatt hour differences between pricing zones if there are no apparent cost-based reasons for the distinctions. Interstate Power's prefiled testimony acknowledges that there is no cost-basis for the zonal differentials.

It would be inconsistent with past Board precedent to reject the filing for failure to file a class cost-of-service study. This does not mean, however, that the Board cannot begin to address zonal differences in Docket No. RPU-02-3. Any revenue increase, or decrease, could be allocated so that zonal differentials begin to be reduced. In fact, this process could begin in temporary rates. Community Coalition's

objection to temporary rates filed April 29, 2002, asks that any temporary increase not be implemented for customers in the Northern and Southeastern zones.

Because Interstate Power has committed to filing a class cost-of-service study, rate design, and rebalancing application no later than July 31, 2002, the primary question becomes whether the ten-month deadline in Docket No. RPU-02-3 should be extended to accommodate this filing.

As indicated earlier, the absence of a class cost-of-service study does not mean that steps toward narrowing zonal differences cannot be taken in Docket No. RPU-02-3. Allocation of any change in revenue requirement could be done so that zonal disparities are reduced. This can be accomplished within the current ten-month deadline for Docket No. RPU-02-3.

The class cost-of-service study, rate design, and rate rebalancing filing could then completely focus on class cost-of-service study, rate design, and any remaining rate rebalancing issues. In other words, that docket would focus on rate design and cost allocation issues between the various rate classes as well as consider any remaining issues related to equalization of rates between the geographic zones.

This raises issues, however, of whether customer rates would then change dramatically with the conclusion of the rate design and rate consolidation case approximately four months following the revenue requirement case. Certainly, customer rates in a class or zone should not be allowed to change in one direction at the conclusion of the revenue requirement case, and then change dramatically four months later at the conclusion of the rate design and rate consolidation case.

Because the rate design and rate consolidation case would likely be revenue neutral with respect to Interstate Power, any rate design/rate consolidation changes may need to be phased in to minimize rate shock and customer confusion. Interstate Power in its filings committed not to seek temporary rates in the rate design filing, so any changes from the second docket would be prospective only.

Both Interstate Power and the Community Coalition agree that a class cost-of-service study, rate design, and rate consolidation case is necessary. The only disagreement is how to get there. The Board will therefore grant Interstate Power's motion to file such a class cost-of-service study, rate design, and rate consolidation proceeding on or before July 31, 2002, and encourages Interstate Power to file as soon as possible. The Board at this time will not extend the ten-month deadline, but reserves the right to rule on the Community Coalition's request for alternative relief at a later date. If it becomes necessary, the two dockets can be consolidated and the ten-month deadline extended.

There may be advantages to addressing revenue requirement issues in one proceeding and class cost-of-service issues in a subsequent proceeding, with zonal differences being addressed in both. This is particularly true if Interstate Power proposes substantive changes in rate design. However, the Board does not want the class cost-of-service study case to dictate or delay any progress on alleviating the zonal differences that can be made in Docket No. RPU-02-3.

The Board recognizes that Docket No. RPU-02-3 is in its early stages and that Consumer Advocate and other intervenors do not file their direct testimony until

July 29, 2002. However, because Interstate Power's initial direct testimony only proposed across-the-board increases, the Board directs Interstate Power to file supplemental direct testimony to provide alternatives to across-the-board increases, assuming \$20 million, \$40 million, \$60 million, and \$80 million revenue requirement increases, that would address the geographic zonal disparities. Interstate Power shall file such supplemental direct testimony on or before June 3, 2002. A good faith proposal by Interstate Power to address the zonal disparities in Docket No. RPU-02-3 will likely be a factor in the Board's ultimate determination as to extension of the ten-month deadline.

The Board did not schedule consumer comment hearings in its docketing order, because it first wanted to rule on the pending motions. Pursuant to 199 IAC 7.7(16), the Board will now schedule eight consumer comment hearings to provide an opportunity for Interstate Power's customers to express their views regarding the pending rate case, the zonal disparities, and the general quality of service provided by Interstate Power. However, persons with specific service complaints must follow the procedure prescribed in 199 IAC 6.2. Specific service complaints cannot be addressed at the consumer comment hearings.

IT IS THEREFORE ORDERED:

1. The application for authority pursuant to Iowa Code § 476.10 filed by Interstate Power and Light Company on April 15, 2002, is granted. Interstate Power is directed to file a class cost-of-service, rate design, and rate consolidation case no later than July 31, 2002.

2. The request for rejection and alternative relief filed by the Community Coalition for Rate Fairness on April 18, 2002, is denied with respect to the request for rejection. The Board reserves its ruling to a later date on the request for alternative relief.

3. Interstate Power shall file supplemental direct testimony as described in this order on or before June 3, 2002.

4. Consumer comment hearings shall be held at the following locations for the purpose of receiving comments from the general public:

a. Wednesday, May 15, 2002, beginning at 7 p.m. at the Ottumwa High School Cafeteria, 501 East 2nd Street, Ottumwa, Iowa.

b. Wednesday, May 22, 2002, beginning at 12 noon at the Grand Theater, 26 North 6th Street, Keokuk, Iowa.

c. Wednesday, May 22, 2002, beginning at 7 p.m. at the James Madison Auditorium, 2132 Madison Avenue, Burlington, Iowa.

d. Thursday, May 23, 2002, beginning at 10 a.m. at St. Mary's Parish Center, 415 11th Street, Fort Madison, Iowa.

e. Wednesday, May 29, 2002, beginning at 1 p.m. at the North-Iowa Community College Muse-Norris Conference Center, 500 College Drive, Mason City, Iowa.

f. Thursday, June 13, 2002, beginning at 1 p.m. at the Wahlert High School Cafeteria, 2005 Kane Street, Dubuque, Iowa.

g. Thursday, June 13, 2002, beginning at 7 p.m. at Kirkwood Community College, Room 316, Iowa Hall, 6301 Kirkwood Blvd., Cedar Rapids, Iowa.

h. Thursday, June 20, 2002, beginning at 2:30 p.m. at the Spirit Lake High School gymnasium, 2701 Hill Avenue, Spirit Lake, Iowa.

Persons with disabilities requiring assistive services or devices to observe or participate should contact the Utilities Board at (515) 281-5256 in advance of the scheduled date to request that appropriate arrangements be made.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 3rd day of May, 2002.